THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

## GE - Q2 2015 General Electric Co Earnings Call

EVENT DATE/TIME: JULY 17, 2015 / 12:30PM GMT

**OVERVIEW:**

Co. reported 2Q15 revenues of $32.8b, total operating earnings of $2.8b and net EPS of negative $0.13.

**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS:**

This document contains "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," or "target." Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about our announced plan to reduce the size of our financial services businesses, including expected cash and non-cash charges associated with this plan; expected income; earnings per share; revenues; organic growth; margins; cost structure; restructuring charges; cash flows; return on capital; capital expenditures, capital allocation or capital structure; dividends; and the split between Industrial and GE Capital earnings. For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include: obtaining (or the timing of obtaining) any required regulatory reviews or approvals or any other consents or approvals associated with our announced plan to reduce the size of our financial services businesses; our ability to complete incremental asset sales as part of that plan in a timely manner (or at all) and at the prices we have assumed; changes in law, economic and financial conditions, including interest and exchange rate volatility, commodity and equity prices and the value of financial assets, including the impact of these conditions on our ability to sell or the value of incremental assets to be sold as part of our announced plan to reduce the size of our financial services businesses as well as other aspects of that plan; the impact of conditions in the financial and credit markets on the availability and cost of GECC's funding, and GECC's exposure to counterparties; the impact of conditions in the housing market and unemployment rates on the level of commercial and consumer credit defaults; pending and future mortgage loan repurchase claims and other litigation claims in connection with WMC, which may affect our estimates of liability, including possible loss estimates; our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so; the adequacy of our cash flows and earnings and other conditions which may affect our ability to pay our quarterly dividend at the planned level or to repurchase shares at planned levels; GECC's ability to pay dividends to GE at the planned level, which may be affected by GECC's cash flows and earnings, financial services regulation and oversight, and other factors; our ability to convert pre-order commitments/wins into orders; the price we realize on orders since commitments/wins are stated at list prices; customer actions or developments such as early aircraft retirements or reduced energy demand and other factors that may affect the level of demand and financial performance of the major industries and customers we serve; the effectiveness of our risk management framework; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation and litigation; adverse market conditions, timing of and ability to obtain required bank regulatory approvals, or other factors relating to us or Synchrony Financial that could prevent us from completing the Synchrony Financial split-off as planned; our capital allocation plans, as such plans may change including with respect to the timing and size of share repurchases, acquisitions, joint ventures, dispositions and other strategic actions; our success in completing, including obtaining regulatory approvals for, announced transactions, such as the proposed transactions and alliances with Alstom, Appliances and our announced plan to reduce the size of our financial services businesses, and our ability to realize anticipated earnings and savings; our success in integrating acquired businesses and operating joint ventures; the impact of potential information technology or data security breaches; and the other factors that are described in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014. These or other uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

This document includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially.

This document also contains non-GAAP financial information. Management uses this information in its internal analysis of results and believes that this information may be informative to investors in gauging the quality of our financial performance, identifying trends in our results and providing meaningful period-to-period comparisons. For a reconciliation of non-GAAP measures presented in this document, see the accompanying supplemental information posted to the investor relations section of our website at www.ge.com.

In this document, "GE" refers to the Industrial businesses of the Company including GECC on an equity basis. "GE (ex-GECC)" and/or "Industrial" refer to GE excluding Financial Services. GE's Investor Relations website at www.ge.com/investor and our corporate blog at www.gereports.com, as well as GE's Facebook page and Twitter accounts, contain a significant amount of information about GE, including financial and other information for investors. GE encourages investors to visit these websites from time to time, as information is updated and new information is posted.

## CORPORATE PARTICIPANTS

**Matt Cribbins** *General Electric Company - VP Corporate Investor Communications*

**Jeff Immelt** *General Electric Company - Chairman & CEO*

**Jeff Bornstein** *General Electric Company - SVP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Scott Davis** *Barclays Capital - Analyst*

**Steven Winoker** *Sanford C. Bernstein & Co. - Analyst*

**Shannon O'Callaghan** *Nomura Securities - Analyst*

**Deane Dray** *RBC Capital Markets - Analyst*

**Jeff Sprague** *Vertical Research Partners - Analyst*

**Julian Mitchell** *Credit Suisse - Analyst*

**Nigel Coe** *Morgan Stanley - Analyst*

**Andrew Obin** *BofA Merrill Lynch - Analyst*

## PRESENTATION

---

**Operator**

Good day ladies and gentlemen and welcome to the General Electric second-quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I will now turn the program over to your host for today's conference Matt Cribbins, Vice President of Investor Communications. Please proceed.

---

**Matt Cribbins - *General Electric Company - VP Corporate Investor Communications***

Good morning and welcome to our second-quarter earnings call. We issued the press release, presentation and supplemental earlier this morning on our website at www.GE.com/investor.

As always elements of this presentation are forward-looking and are based on our best view of the world and our businesses as we see them today. Please interpret them in that light.

For today's webcast we have our Chairman and CEO Jeff Immelt and Senior Vice President and CFO Jeff Bornstein. Now I will turn it over to Jeff Immelt.

---

**Jeff Immelt - *General Electric Company - Chairman & CEO***

Thanks, Matt. The team had a strong quarter in a slow growth and volatile environment. We're executing both organic growth and cost initiatives.

Specifically, Industrial EPS grew by 18% and earnings at the combined, a combination of Industrial and the Capital verticals which is the way we think about GE going forward grew by 19%. Organic growth and earnings performance was very strong. Orders were up 13%, revenue was up 5% and profit would have grown by 11% organically.

Our Operations were strong. Margins expanded by 70 basis points with gross margins up 60 basis points and industrial CFOA grew by 79%.

Our Oil & Gas business met expectations for the quarter for orders, revenue and profit. Organic profit was up 5% and we continue to grow margins despite a tough environment.

We end the half with our goals on track. Meanwhile we have a number of portfolio actions under way. GE Capital asset sales were robust and we will achieve $100 billion of deals closed in 2015.

We still expect the Synchrony split to take place by the end of this year. Appliances and Alstom are in the middle of regulatory reviews but we still expect both deals to close by the end of the year. We remain committed to doing good deals for investors.

In all we're confident enough in our performance to raise the low end of our range for industrial guidance to $1.13 to $1.20 EPS. So overall we had a very good quarter.

Orders were very strong, up 8% or 13% organically. We saw solid growth in both equipment and service. Orders pricing was up slightly and we grew backlog to a record $272 billion.

Power & Water was up 22% behind strength in PowerGen products and Wind. We now have won 61 technical selections for the H turbine, up eight in the quarter.

Oil & Gas had solid equipment orders and Turbomachinery and Downstream consistent with expectations. Power Conversion orders grew by 33% as we're winning big in renewable energy markets. Aviation had large orders growth in LEAP and GEnx and meanwhile spares order rates grew by 33%.

Healthcare HCS equipment orders grew by 6% in the US as that market continues to rebound. The US was particularly strong but we also saw growth in many parts of the world. The US was up 10%, Europe up 4% and growth markets up 2%.

First-half Industrial Internet orders were $1.9 billion, up 83% and we expect total Software and Solutions orders for the year up $6 billion and 30%. Service growth was robust at 7% ex-FX and backlog reached $200 billion for the first time.

Our strong backlog in orders position GE to achieve our long-term organic targets of 5%. Organic revenue was up 5%. Growth was broad-based with six of seven segments up. A real highlight was the $19 billion of commitments at the Paris Air Show.

For the first half, US revenue grew by 3% and four of nine growth markets were up and China grew by 12%. We had some excellent performances in Service. PowerGen Service was up 9%, Aviation Service was up 6% and Transportation Service was up 6%.

We're gaining share in Healthcare with US Healthcare HCS equipment revenue growing 16%. We closed a big healthcare deal in Kenya worth more than $200 million. And International locos grew by 128% with big wins in Brazil and South Africa.

A few adjacencies were particularly strong. Wind grew by 49% and LEDs grew by 77% and our Power Conversion business is innovating in solar and wind energy recording $300 million in orders in those markets alone. We have a strong pipeline of products and services that are winning versus competition.

We're having success in software and analytics. We launched GE's Digital Wind Farm providing customers with up to 20% more capacity. We announced a major collaboration with BP for asset monitoring in oil and gas and we closed another class I railroad that will utilize GE's Movement Planner in a deal worth more than $100 million.

Margins expanded with 70 basis points of growth. Gross margins were up 60 basis points with strength in value gap and productivity. We're making progress broadly with five of seven segments having margin growth. Simplification continues to deliver results and our SG&A targets are on track.

First-half margins are up 100 basis points. Service margins were particularly strong, up 130 basis points year to date as the impact of our analytical tools are being felt.

Equipment margins, meanwhile, are up 30 basis points year to date. So we're running the Company well.

Cash is a good story. Industrial CFOA is up 79% year to date and free cash flow is up 54%.

We did not receive a capital dividend in the quarter but we're hopefully getting an additional dividend to the parent in the year. As we've said our asset sales are ahead of plan and GE Capital has substantial strength to remain safe and secure.

We expect to complete the Synchrony split by the end of 2015 and at the current stock price our share of Synchrony is worth about $24 billion. The balance sheet is very strong with $17 billion of cash at the parent and our cash generation is on track for the year and we remain committed to our capital allocation plans.

Now over to Jeff to review the businesses.

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Thanks, Jeff. I'll start with the second-quarter summary.

We had revenues of $32.8 billion which were up 2% in the quarter. Industrial revenues including corporate were up 1% to $26.9 billion. You can see on the right that the Industrial segments where flat on revenue for the quarter but up 5% organically.

Industrial operating plus verticals EPS was $0.31 which was up 19% year-over-year. That's driven by Industrial up 18% and the verticals up 25%. The operating EPS number of $0.28 adds in other continuing GE Capital activity including the Consumer segment, headquarter runoff and other exit-related items which I'll cover in more detail shortly.

Continuing EPS of $0.24 includes the impact of non-operating pension and net EPS of negative $0.13 includes the impact of discontinued operations. The total disc ops impact in the quarter was negative $3.7 billion which included a $4.3 billion non-cash charge related to moving the majority of our GE Capital CLL business to held for sale. We disclosed this earlier in the month.

Partly offsetting the charge was income associated with CLL and real estate. This charge was included in the total $23 billion GE Capital estimated exit impact that we communicated in April but earlier than we originally planned based on accelerated sales activity.

As Jeff said we had a strong performance on cash with CFOA for the half up $3.9 billion, or 17%. Industrial CFOA was $3.5 billion at the half which was up 79%. In the first quarter we had $450 million of GE Capital dividends and we did not receive a dividend from GE Capital in the second quarter.

The consolidated tax rate for the quarter was 27%. The GE rate was 21% in line with guidance we provided. The GE Capital reported rate was 45% driven by tax charges associated with the exit plan and the vertical tax rate in the quarter was 6%.

On the right side you can see the segment results. As I mentioned earlier Industrial segment revenues were flat on a reported basis but up 5% organically, reflecting 5 points of headwind from foreign exchange. Foreign exchange was $1.3 billion drag on Industrial segment revenue and about a $215 million impact on Industrial segment's op profit.

Despite this headwind Industrial segment operating profit was up 5% and organically the Industrial segments were up 11%. GE Capital vertical earnings of $531 million in the quarter were up 19%.

Before we get into the traditional pages I wanted to first walk the different elements of our earnings for the quarter so the dynamics are clear given all the moving pieces at GE Capital. Starting with the first column on the left and working down, Industrial operating income was $2.6 billion and Vertical income was $0.5 billion for a total Industrial plus Verticals operating earnings of $3.2 billion.

The GE Capital Consumer segment earned $459 million during the quarter which is comprised of $463 million for Synchrony offset by our non-strategic global consumer portfolio. We incurred $772 million of costs driven by exit-related tax and restructuring charges, headquarter runoff, operating expenses, excess interest and preferred dividends in the quarter. As a result, total operating earnings were $2.8 billion.

Including non-operating pension costs continuing earnings were $2.4 billion. In discontinued operations you can see the $4.3 billion held for sale charge for CLL as well as the impact of CLL real estate earnings in the quarter. Adjusting for these items, net earnings in the quarter were a negative $1.4 billion.

In the center and far right columns you can see the associated EPS impacts and the variance versus prior year.

Next on Industrial other items in the quarter we had $0.03 of charges related to ongoing Industrial restructuring and other items as we continue to drive the cost competitiveness of the Company. Charges were about $400 million on a pretax basis and $280 million after-tax. About 40% of that related to restructuring Oil & Gas as we continue to execute on an aggressive cost-out program in that business.

We also had $0.03 of gains in the quarter primarily related to the NBCU settlement that we disclosed in June. We also had a small gain related to a disposition in Oil & Gas. Both of these transactions were booked in Corporate.

On a pretax basis gains and settlements totaled about $500 million but given the high tax rate on these transactions the after-tax impact was $295 million in the quarter. As you're aware we are expecting gains in the second half from the Appliances & Signaling transactions and we expect gains and restructurings to be balanced on an EPS basis for the year. We have increased our expected restructuring from about $0.09 to about $0.12 due to the higher gains we expect in the year and additional attractive restructuring opportunities we see.

Now I'll go through the segments starting with Power & Water. Orders of $7.8 billion were up 22% in the quarter, up 27% ex-foreign exchange. Equipment orders were higher by 29% with Distributed Power up 68%, Thermal was up 25% and Renewables higher by 24%.

Distributed Power was driven by domestic orders for LMS 100 units from two customers. Reciprocating engines for gas compression remain weak and were lowered by 37%.

In Thermal we booked 18 gas turbines versus 10 last year including an H turbine in Korea. This brings our H units to 17 in backlog and an additional 44 technical wins.

Renewables orders totaled 888 wind turbines versus 715 a year ago. Our two new NPI products, the 2.0 and the 2.3 megawatt platforms, received additional orders for 200 units in the second quarter of this year.

We also launched the Digital Wind Farm software solution featuring a new 2 megawatt modular turbine connected to the Industrial Internet and built on our Predix platform. This application will drive up to 20% more annual energy production for our customers.

Service orders were up 17% on strong PGS growth in ASEAN and the Middle East North Africa and AGP orders were 39 versus 19 last year. Revenues for the quarter were higher by 8%. Revenues were higher by 15% organically.

Equipment revenues were up 10% driven by Renewables up 53% on shipments of 806 wind turbines versus 510 last year, partially offset by Distributed Power down 20% on lower turbine and engine shipments and Thermal down 3%. We shipped 24 gas turbines, three higher than second quarter of last year but with reduced scope and a mix of more 7Fs and 9Fs.

Service revenues were up 6% with PGS up 9% on higher installations, strong upgrades including AGP sales of 26 versus 19 last year.

Operating profit in the quarter was up 8% reported and up 14% organically. Growth was driven by volume, price and base cost productivity more than offsetting H turbine ramp costs, negative mix driven by Wind and Distributed Power and foreign exchange. Operating margins in the quarter were flat at 18%.

The framework for Power & Water remains intact. We expect 100 to 105 gas turbine orders and shipments, 3,000 to 3,200 wind shipments and AGP upgrades of 90 to 100. Distributed Power we think will remain challenging for the year.

Next on Oil & Gas, the business performed as we expected in the second quarter on orders and revenue and performed slightly better than we expected on operating profit. I'll start with orders.

Orders were down 20% reported and down 11% organically. Equipment orders were down 14% and flat organically. Turbomachinery was higher by 40% driven by new LNG orders and Downstream was higher by 53% from strength in Sub-Saharan Africa and the Middle East.

The strength in Turbomachinery and Downstream were offset by Subsea which was down 48% on tough comparisons and Surface was down 31% on weak North American demand. Service orders in the quarter were down 26% and down 20% organically. Turbomachinery and Subsea were down 36% and 30% respectively.

M&C was down 22% principally driven by the Wayne disposition and a softer market. Downstream was up 23%.

Revenues of just under $4.1 billion were down 15% reported and down 4% organically driven by foreign exchange and the Wayne disposition. Equipment revenues were down 20% reported, down 8% organically principally driven by Turbomachinery down 20% or 7% organically and Surface down 24%.

M&C was stronger by 10% organically and Service revenues were down 9% but up 1% organically. Operating profit was down 12% to $583 million in the quarter but was up 5% versus last year organically. Foreign exchange translation was $115 million headwind in the quarter.

Margins grew 40 basis points and were up 140 basis points organically. The business executed well delivering on manufacturing productivity, positive value gap and executing restructuring .

Through the first half Oil & Gas revenues were down 12% reported and down 2% organically. Operating profit was down 9% reported but was up 8% organically. Margins improved 40 basis points reported and 120 basis points organically for the half.

The business team is ahead of their plan to take out $600 million of costs this year. The framework we laid out for you at EPG of operating profit down 5% to 10% reported and down zero to 5% organically is unchanged.

Next up is Aviation. Global air travel continues to grow robustly. Passenger traffic grew 6.3% year to date through May with strength in both domestic and international travel.

Most regions saw strength. And airfreight volumes grew 4% year to date.

Aviation had a very strong orders performance in the second quarter with $7.6 billion of orders up 30%. Equipment orders grew 37% to $4 billion driven by commercial engine orders growth of 71%.

GE90 and 9X orders of $2 billion were higher by 12 times with key orders from United, Korean Air, Qatar and ANA. GEnx orders were higher by three times. Commercial engine backlog grew 43% in the quarter to $29 billion.

Military equipment orders were down 31% more or less as expected. Service orders were up 23% with commercial spares up strongly at 33% or $37.9 million a day and military service orders were up 73%.

Services backlog ended at $107 billion, up 7%. Revenues in the quarter of $6.3 billion were up 3% with commercial equipment higher by 7%. The business shipped 86 GEnx engines versus 75 a year ago which includes 15 units delayed from the first quarter.

Military equipment was lower by 12%. Service revenue was up 6% and commercial spare parts higher by 30% and military was higher by 15%. That was partially offset by lower commercial time and materials shop visits.

Operating profit was 6% higher than the second quarter of 2014 driven by strong value gap and base cost productivity. Margins expanded 60 basis points in the quarter.

The Aviation team continues to deliver operationally and win commercially as they execute on multiple new product introductions. At this year's Paris Air Show we announced $19 billion of orders and commitments.

LEAP testing and performance remains on track and the first LEAP installed engines will go into service in mid-2016.

On Healthcare, orders at $4.7 billion were down 3% but up 4% organically. Orders in the US grew 3%, Europe was down 13% but up 7% organically and Japan was up 12% organically with Africa higher by 40%. Offsetting these strong organic results was the Middle East down 6% driven by Saudi and China down 7% on continued slow public tenders.

In terms of business lines Healthcare Systems orders were down 3% reported but up 3% organically. US imaging and ultrasound were up strongly at 8% with MRI higher by 17% and ultrasound up 7%. Japan was up 1% and up 19% ex- the impact of the yen.

Africa was up 42% on a large minister of health deal in Kenya and China was soft and was down 9% in the quarter. Lifescience orders were down 2% reported but up 7% organic with bioprocess continuing to grow 13% organically. Revenues in the quarter were down 3%, up 3% organically.

Healthcare Systems revenues were up 3% organic and Life Sciences grew 8% organic. Operating profit was down 3% reported but up 2% ex-foreign exchange.

Volume growth and productivity was partially offset by foreign exchange and price. Margin rates were flat in the quarter.

So the US market continues to grow. Europe appears stable. We believe we continue to take share in most of the markets we operate in.

China remains a challenge with slow tenders but we do not think there's an underlying demand problem. We really like the outlook and the growth trajectory for the bioprocess business within Life Sciences.

Next up is Transportation. Rail volumes were down 1.8% in the second quarter with carloads down 7% driven by coal, petroleum and agriculture and that was partially offset by a 4.4% increase in intermodal traffic. Rail volumes for the half were essentially flat with last year.

Transportation orders were down 5% in the quarter driven by lower equipment orders down 19% partly offset by 6% growth in Services. Locomotive orders in North America were lower by 99 units partly offset by strong international orders. Service strength was driven by $115 million order for Movement Planner in our Solutions Software business and very good spare parts demand.

Backlog grew 32% year over year to $21 billion. Revenues were up 9%, principally driven by equipment growth of 13% and service is higher by 6%. We shipped 191 locomotives in the quarter versus 165 in the second quarter of 2014.

Operating profit was up strongly at 23% driven by higher locomotive and parts volume, strong productivity partly offset by mining mix and Tier 4 ramp costs. Margins improved in the quarter 260 basis points versus last year.

We currently have 18 preproduction Tier 4 units in revenue service with customers and we will begin shipping our first production units this month. The launch remains on track.

In Energy Management, orders were $2 billion in the quarter up 5%. Orders were higher by 13% excluding the effects of FX. The business saw strength in Power Conversion higher by 33%, partly offset by Digital Energy down 5% and Industrial Solutions down 6% but roughly flat organically.

Strength in Power Conversion was driven by higher penetration of renewables market where the business has grown its share 50% in the last year. This was partially offset by weakness in Oil & Gas related Marine space. Backlog grew 10% to $5.5 billion in the quarter.

Revenues of $1.8 billion were down 5% but up 4% organically. Organically Power Conversion was higher by 13%, Digital Energy up 2% and Industrial Systems was down 2%.

Operating profit was up 19% versus last year and up 40% organically. Growth was driven by strong productivity more than offsetting foreign exchange. Margins improved 90 basis points in the second quarter.

Through the first half Energy Management operating profit was up 49% reported and up 96% organically.

Finally with Appliances & Lighting, revenue was up 5% in the quarter with Appliances up 7% on strong volume and Lighting was up 2%. The US appliance industry units were higher by 6% with retail up 5% and contract up 12% on robust housing starts. In Lighting revenue growth was driven by LED which was up 77%, partially offset by a 17% decline in the traditional products.

LED now accounts for 36% of Lighting revenue, up 15 points from last year. We believe we're on track for approximately $1 billion of LED revenue in 2015.

Operating profit was higher by 62% in the second quarter driven by higher volume and strong productivity.

As has been reported, the US antitrust authorities have filed suit to challenge the sale of GE Appliances to Electrolux and we plan to vigorously defend the transaction in court. We expect the trial to begin in the fourth quarter and our goal remains to close this deal this year. We are confident the transaction is good for customers and consumers and that acquiring the GE Appliances brand would help Electrolux compete in an increasingly global and intensely competitive industry.

Finally I'll cover GE Capital. As I discussed earlier, our vertical businesses are $531 million this quarter, up 19% from prior year on strong performances across Aviation, Energy and Healthcare. Portfolio quality is stable and GECAS finished the quarter with only one aircraft on the ground.

The Verticals generated $2.2 billion of volume in the quarter, up 4% and 80% of the GECAS volume and commitments were powered by GE's CFM equipment. Energy Finance arranged deals in the quarter that will fund 180 GE wind turbines.

Working down the page, Consumer earned $459 million during the quarter, down 3% driven by Synchrony's minority interest. Our share of the Synchrony earnings was $463 million. In the quarter the Synchrony team filed for separation with the Federal Reserve and we continue to target year-end subject to regulatory approval.

As in prior quarters CEO Margaret Keane will host Synchrony's earnings call later today.

Corporate generated a $772 million charge in the quarter driven by exit-related tax and restructuring charges, headquarter runoff, operating expenses, excess interest and our preferred dividend of $160 million in the quarter. Discontinued operations ended the quarter with a $3.7 billion loss. Results were driven by our Commercial Lending and Leasing business as the majority of that business was moved to discontinued operations in the second quarter as you will have seen from our 8-K published in early July.

As part of accelerating our timeline we recognized $4.3 billion held for sale loss which includes the write-off of $8 billion of goodwill. This charge is included in the $23 billion total cost construct we shared with you in April. On an economic basis we expect the CLL portfolios to generate a gain versus our tangible equity.

Other earnings from discontinued operations were $582 million for the quarter and are primarily driven by CLL operations. Overall GE Capital reported a $3.5 billion loss and we ended the quarter with $179 billion of ENI excluding liquidity. That's down $124 billion from the prior quarter.

Our liquidity levels remain strong and we ended the quarter at $85 billion including $14 billion attributable to Synchrony and our Basel III Tier 1 common ratio was 11.4%. That's up 80 basis points from the first quarter. We expect this ratio to continue to improve as we dispose of risk-weighted assets.

In terms of portfolio sales the team continues to make good progress. During the quarter we signed deals representing approximately $23 billion of ENI bringing our year-to-date total to $68 billion. There continues to be strong interest in our portfolios and we have $80 billion of additional ENI in the market currently.

By year-end we are on track to close approximately $100 billion and sign between $120 billion and $150 billion in total. We expect to be largely complete with our exit plan by year-end 2016, a year earlier than our original plan that we shared with you in April.

At the bottom of the page is the 2015 dividend matrix we shared with you on April 10 when we announced the GE Capital exit. We are operating the business through the process at 14% Tier 1 common. As I discussed earlier we ended the quarter at 11.4% Tier 1 common.

We expect to improve the ratio to 14% or better by year-end as we close the $100 billion of estimated deals. Overall Keith and the GE Capital team delivered a strong operational quarter and remain focused on delivering on the portfolio transformation.

With that I will turn it back to Jeff.

---

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

Thanks, Jeff. We have a few adjustments to the 2015 operating framework. We're increasing the low end of the range with new expectations of $1.13 to $1.20.

So far this year organic growth and margin expansion are trending towards the high-end of our expectations and we expect this to continue. We're still planning for our transactions to close by the end of the year.

The Verticals will remain on track for $0.15 EPS and the accounting around capital exits are consistent with our plan. We think it's likely that the Synchrony split occurs this year.

GE Capital asset sales closings are tracking towards $100 billion of ENI and we expect signings in excess of that number. Free cash flow is on track for $12 billion to $15 billion and we're hoping to expand the GE Capital dividend based on faster asset sales. And just for perspective Appliances represents about $2 billion of the disposition cash.

We've showed a range of $10 billion to $30 billion of cash returned to investors. Our capital allocation plans are on track. And if Synchrony occurs this year we will be at the high end of this range.

So the GE team is executing. Despite managing a substantial portfolio pivot our operating execution remains excellent.

We're gaining momentum towards our long-term goals and going forward we can give investors strong industrial EPS growth while returning significant cash through dividends and buyback. And we've created a premier industrial Company well-positioned to win in this environment.

So Matt, let's take some questions.

**Matt Cribbins** - ***General Electric Company - VP Corporate Investor Communications***

Thanks, Jeff. I'll now turn it over to the operator to open up the phone lines for questions.

**Operator**

(Operator Instructions) Scott Davis, Barclays.

**Scott Davis** - ***Barclays Capital - Analyst***

Hi, good morning guys. Happy Friday summer.

Hopefully we can all go home a little early and this earnings release is relatively easy to get through versus the past and thanks for that. I wanted to ask a couple of questions and the first one just related to Oil & Gas. When you take the order book and the pricing in that order book and you push it forward to whatever the typical backlog of that is, let's say it's six months or so, can you hold margins when you get to that timeframe?

How does that mix shift look? I'm just trying to get a sense of how you even think about modeling a down 20%-plus order book in that business.

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

Well you know Scott, I'll start and then let Jeff also add some perspective. I think our expectation always was that we could hold margins as we went through this process and you've seen that so far this year.

I think going into the cyclicality in Oil & Gas there were a number of I would say inefficiencies already in the industry. So I think there were good productivity opportunities from the start.

We'll take out $600 million-ish of cost this year. That will be more next year so we've been able to do a good job on cost and I think the combination of those things and the mix of businesses we have I think gives us a perspective that we should be able to hold our margins going forward despite a more challenging market.

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Yes, the only thing I would add is that $1 billion cost-out target for 2016 is absolutely critical to me. There's no question that although we've not repriced any of the existing order book there's no question that new orders are going to be challenging from a pricing perspective.

That's why all the work around restructuring and product service cost is so critical in terms of profitability and operating margins. So the team has executed ahead of plan. We feel really good about their ability to execute on that cost roadmap that we've laid out with them.

**Scott Davis** - ***Barclays Capital - Analyst***

That's helpful. As a follow-up just on asset sales you made a commentary and said that things are ahead of plan, I mean volume is certainly ahead of plan. But can you give us a sense of pricing, and how I know some of this stuff hasn't happened yet but indications of interest in such, and you are probably in various stages of price discovery but give us a sense of really where pricing is coming in versus your expectations.

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Yes, so if you think about it in terms of deals that Keith and the team have signed, right now we're roughly excluding real estate we're about 5%, a little over 5% ahead of the fair values we used on the April 10 call of the baseline if you will for the Hubble. So, so far I think we're doing better on price than that baseline. Having said that, because we're accelerating the sales of these portfolios and franchises that means the earnings that we're going to enjoy over what we thought the hold period was going to be is shortened.

So right now I would say that those two things more or less offset each other. Better on price for what we've signed so far but we're selling them quick and we'll earn less as a result of not owning them as long as we thought.

**Scott Davis** - ***Barclays Capital - Analyst***

We can live with that.

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

So still on track -- still on track for the (multiple speakers)

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Yes, still on track.

**Scott Davis** - ***Barclays Capital - Analyst***

Yes, I get it. Thanks guys and good luck.

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

Great. Thanks, Scott.

**Operator**

Steven Winoker, Bernstein.

**Steven Winoker** - ***Sanford C. Bernstein & Co. - Analyst***

Hey, thanks and good morning guys. So I just want to make sure I understand a little bit how you're thinking about the one-time items and restructuring offsetting the gains.

On the NBCU gain side what drove that this many years later and how do you think about that from an accounting or maybe a reporting perspective in terms of comparison with Lake and other things that you treated in discontinued operations versus putting this one in continued op. I just want to understand the logic there.

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Well, it was a result of an agreement when the initial JV was set up. It had a lifespan that spanned many years and in the second quarter we and Comcast agreed to settle that arrangement if you will.

It was $450 million in the quarter as we talked about, about $0.03 after-tax. The accounting around it has it in continuing operations and the accounting doesn't push it into discontinued operations. So it's just a function of how the accounting works.

**Steven Winoker** - ***Sanford C. Bernstein & Co. - Analyst***

Okay but why would Lake have been in disc ops but not this?

**Jeff Bornstein** *- General Electric Company - SVP & CFO*

Because we moved the whole Lake operation into discontinued operations including the liability that we had with Shinsei associated with it around the guarantee in the runoff of that book. We had a continuing piece of NBC as a result of this JV operation that was in continuing ops and we just settled it and it's always been there.

**Steven Winoker** *- Sanford C. Bernstein & Co. - Analyst*

All right. Fair enough. Next question, what are the transactions that we're talking about?

I know you can't comment a lot on Appliance and Alstom. If they do not close by the end of the year, how would that affect the operating framework that you've laid out quantitatively?

**Jeff Bornstein** *- General Electric Company - SVP & CFO*

Yes, so here's how I think about it. I mean generally speaking if we didn't close Alstom the impact in 2015 would be pretty de minimis. It would not have that big an impact.

I think we told you that we were expecting Alstom net of everything to be about a penny a share in the year. So on Appliances obviously the framework included the gain associated with Appliances and we pick up a couple more quarters of earnings than we had anticipated that will offset part of that.

And then we'd relook at what we're doing around restructuring. Right now we're talking about $0.12 of restructuring and we'd rethink about whether we're going to do $0.12 of restructuring. So that's how we're thinking about the framework for the year.

**Steven Winoker** *- Sanford C. Bernstein & Co. - Analyst*

Okay. And on that topic, Jeff, I know you set expectations for how you were thinking about potential concessions with Alstom at EPG and you guys were on the table this week on that front. And you can't disclose the detail but can you let us know how consistent what you provided is with your prior commentary?

**Jeff Immelt** *- General Electric Company - Chairman & CEO*

So you know, Steve again we're constrained on what we can say. I think the proposal is confidential and it's not final really until the commission evaluates and make a decision.

What I would say is that we proposed a remedy that addressed their concerns while preserving really the strategic and economic rationale that I reviewed with you guys in the past. And look, we still like the deal for the Company and more news as the process goes on but we like the deal and it's consistent with the things that economically that we've talked about as the rationale for the deal.

**Steven Winoker** *- Sanford C. Bernstein & Co. - Analyst*

Okay, thanks. I will hand it on.

**Operator**

Shannon O'Callaghan, UBS.

**Shannon O'Callaghan** *- Nomura Securities - Analyst*

Good morning. Hey, can we go through a little bit more on these margin drivers? They moved a decent bit from what they were in the first quarter.

The mix got a lot more negative, I think GEnx was a good part of that and then value gap and cost productivity got a lot better. Can you just run through what moved those things relative to what we saw last quarter?

---

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Yes, sure, Shannon. So as you know mix was actually a good guy in the first quarter. It was negative in the second quarter at 70 basis points. For the half, it's negative 10 basis points.

As we said in the first quarter we expected mix to turn around a little bit here in the second quarter and it in fact did. You're correct. Part of that is the higher GEnx shipments and it's also a function of higher wind shipments and lowered Distributed Power quarter to quarter so that's what happened on the mix line.

Value gap got substantially better. Value gap in the second quarter was about $193 million. It's $221 million for the half.

So up substantially from $28 million of value gap in the first quarter. And we continue to deliver cost productivity on products and service and so in the second quarter we had 60 basis points of margin improvement at the gross margin line and then 70 at op profit. So the net of simplification and other inflation added 10 basis points below gross margin.

So that gave us a first half of 70 basis points improvement in the gross margin line and 100 in op profit. So those are really the dynamics. I think mix turned around like we thought it would versus an extremely strong first quarter and value gap got substantially better.

---

**Shannon O'Callaghan** - ***Nomura Securities - Analyst***

And how should we think about these different dynamics playing out for the rest of the year?

---

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

So I think what we said earlier in the year is we thought mix would be plus or minus for the year and I think we still feel like based on backlog on what we expect orders shipments to look like for that to be roughly correct. I said value gap for the year would be roughly as it was in 2014; 2014 was about $300 million.

We're a little ahead of that run rate here through the half. We'll see how that plays out.

Price has been pretty good actually both in Power & Water and Aviation. So that's how -- I don't think the framework is changing materially from what we told you earlier in the year.

---

**Shannon O'Callaghan** - ***Nomura Securities - Analyst***

Okay. And then just on assessing this 2015 capital dividend we got the $100 billion of sale assumptions and the 14% Tier 1. Is there something else that could move that significantly off of being a $1 billion dividend plan for the year for Capital?

---

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Well, we're hopeful that as we move through and Keith and the team closed these $100 billion of transactions that that 11.4% Tier 1 common rate is going to move to 14% and beyond and for them to be in a position to dividend us money this year we need to be above the 14%. We have a few other moving pieces -- we have a stress test we're going to do, etc., but we're hopeful that we can outperform the $500 million certainly they've given us so far. And we gave you a range here of $0.5 billion to $7 billion in April 10 and I think we're kind of still in that range.

---

**Shannon O'Callaghan** - ***Nomura Securities - Analyst***

And is there a time when you make that decision or is it based on the timing of asset sales?

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

It's based on the timing of asset sales and more likely than not would be late fourth quarter.

**Shannon O'Callaghan** - ***Nomura Securities - Analyst***

Okay, thanks a lot.

**Operator**

Deane Dray, RBC Capital Markets.

**Deane Dray** - ***RBC Capital Markets - Analyst***

Thank you. Good morning everyone.

Just going back to the Alstom deal, I know there's sensitivities here but could we talk about the plan B? If you do have to walk away from a compromise deal, is it clear that you would put all that deal capital right into buybacks?

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

You know, Deane, I'm just not going to go there. I think we like this deal.

It's our intention to really close the deal and that's really where our stand is. So let's just leave it at that.

**Deane Dray** - ***RBC Capital Markets - Analyst***

Sure. I appreciate that. And then just moving the focus over to geographical for a moment, and I don't know it just struck me as ironic that this quarter the growth markets were the laggards and maybe you can comment on that in particular? The 2% Healthcare was weak in China but it doesn't seem to be a longer-term trend but just kind of parse through the dynamics on the growth markets.

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

Let's see, Deane. If I just gave you a kind of half to date on China the orders are up 15 and the revenue is up 12. That's let's say first-half 2015 versus first-half 2014.

Then if you looked at some of the growth regions from a standpoint of orders I'd say Latin America and Middle East, North Africa, those places are hanging in there. We're certainly seeing pressure in places like Russia and ASEAN countries.

But I'd say the strength is the diversity of the portfolio. And it's our expectation for the year that these are ex-FX, probably high single digits, mid to high single digits on the growth regions for the year.

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

I would just add, Jeff, that we're in a cycle now where the developed markets are stronger than so in the US in the second quarter we were up 10% on orders. I talked about Japan being up ex-FX up very strong, up 86%.

And Europe was actually up 4% ex- the effects of exchange. So the developed markets seem to be getting a little bit stronger and the developing markets are certainly much more mixed.

**Jeff Immelt** *- General Electric Company - Chairman & CEO*

I'd say mixed. Yes.

**Deane Dray** *- RBC Capital Markets - Analyst*

Great, thank you.

**Operator**

Jeff Sprague, Vertical Research.

**Jeff Sprague** *- Vertical Research Partners - Analyst*

Thank you. Good morning gentlemen. Just a couple of questions.

Just on the additional restructuring, I was just wondering what it is you might be targeting? And I guess specifically thinking about the quarter, it sounds like only about 40% of the restructuring spend is actions that might have some kind of payback as opposed to mortality and other kind of loose ends cleanup. Is that correct and how do we think about that going forward?

**Jeff Bornstein** *- General Electric Company - SVP & CFO*

So we think we have a number of opportunities to increase the amount of restructuring we do to get ourselves positioned for 2016 and beyond, particularly around competitiveness. As I said earlier if for some reason we didn't close Appliances we may take a harder look at that. Of the restructuring we spent in the quarter about $140 million of that was in Oil & Gas and we see very good paybacks around that.

All the projects we're working on today are all inside of the 1.5 year payback benchmark that we shared with you over time. The nature of the restructuring has changed pretty dramatically, though. There's about less than a third of what we're doing today is SG&A related and more like 70%, 75% of it is product and services.

We really focus on gross margins and products and service cost competitiveness. So I think we're on track to invest at very good returns in restructuring this year and they are critical to delivering not only the year but setting us up to deliver on 2016 and beyond.

**Jeff Sprague** *- Vertical Research Partners - Analyst*

And is the mortality hit just a one-time adjustment? I thought that was more of an ongoing change in pension cost?

**Jeff Bornstein** *- General Electric Company - SVP & CFO*

Yes, it's a change for the year that we planned out in restructuring and other charges. It's about $40 million in the quarter pre-tax. So it's $20 million after-tax, it's not a big item.

**Jeff Sprague** *- Vertical Research Partners - Analyst*

And then just switching gears, Oil & Gas Services, the weakness in orders there, what is actually driving that? It's a little surprising that's weaker than the equipment orders. Do you see people pulling back on OpEx as opposed to CapEx or some other timing noise there in the quarter?

**Jeff Bornstein** *- General Electric Company - SVP & CFO*

Some of it's timing. Services across the board were pretty challenged here in the quarter. I would say the biggest driver as you would probably expect has been Service, I'm sorry Surface.

Orders were quite weak around pressure control, well performance solutions. Lufkin was down 40% in the quarter.

So that's really where the challenge is. But each one of the businesses had a challenge around Service in the quarter.

---

**Jeff Sprague** - ***Vertical Research Partners - Analyst***

Great. Thank you.

---

**Operator**

Julian Mitchell, Credit Suisse.

---

**Julian Mitchell** - ***Credit Suisse - Analyst***

Hi, thank you. I just wanted to ask around the PGS orders. I think they were very strong, up 17% or so. You called out what's going on in some of the emerging markets but maybe give some more color on thermal power services in the US and Europe what you're seeing.

---

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

Again excellent work on the AGPs I would say, Julian, continues to be robust. I think just the overall mix in usage around gas turbines is high as there's incremental shift from coal. So those remain two big drivers I think of PowerGen Services.

And I would say DP Services despite the new unit being softer in Distributed Power the Distributed Power Service business has done very well in terms of upgrades and service performance. So I think they had another good quarter and are pretty well-positioned for the rest of the year.

---

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Yes, I'll just do a quick run-through. So Service is up 17% as you refer to. Jeff talked about 39 AGPs in orders in the quarter.

That's up 20 versus last year, very strong. But Distributed Power services were up 27% and regionally orders were very strong in the Middle East, were up above 60% and ASEAN, China the combination of ASEAN, China and India was up 38%. So very strong in the quarter and we like where the business is heading for the year as well.

---

**Julian Mitchell** - ***Credit Suisse - Analyst***

Thanks. And Oil & Gas fairly disparate collection of assets and backlog length and so on.

You sound pretty confident on the earnings outlook for this year for that segment. How much of the balance of the second-half sales and earnings are in your backlog as of now?

---

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Yes, so at the moment in total about 67% of sales in the third and fourth quarter are in backlog. As you would expect Subsea and Drilling were closer to 85% in backlog, TMS much higher, Downstream Technology about 80% backlog.







THOMSON REUTERS

So the businesses got the biggest and closest to a flow business is Surface. Surface has got about a third of the second-half revenue in backlog. So we think we're in pretty good shape here for the balance of 2015.

---

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

Again I would go to the mix of businesses. Turbomachinery and Downstream continue to be reasonably strong.

Surface as Jeff said is the most challenged. So I think the mix of businesses helps give us a little bit more visibility than maybe some others.

---

**Julian Mitchell** - ***Credit Suisse - Analyst***

Thanks. And just very quickly, Healthcare. Should we think profits are maybe flat this year rather than seeing growth? I think they were flat in the first half.

---

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

I think organically earnings are definitely going to be up. And we expect the team with restructuring and the fact that the US market is doing better, we expect earnings growth in the second half even without FX.

---

**Julian Mitchell** - ***Credit Suisse - Analyst***

Great, thanks.

---

**Operator**

Nigel Coe, Morgan Stanley.

---

**Nigel Coe** - ***Morgan Stanley - Analyst***

Thanks, good morning. I just want to continue with the Oil & Gas name. Pricing this quarter was actually better than last quarter, down 1.2 versus down 1.4.

I'm just wondering do you feel that the boundaries on Oil & Gas are now more defined, do you feel more confidence in where this goes in the second-half of the year? And are you confident you can maintain price deflation in this kind of zone?

---

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

I still think the industry is forming. So I think there's still volatility around oil price. I think we've taken a lot of cost out.

I think everybody's learned how to compete at lower prices for oil, so I'm very confident in our ability to execute on the cost side. I would say that repricing is still de minimis, so we're not seeing massive headwind from that. And I just think it's one of those that we're going to have to continue to give you updates on where the market is but I just think we can manage our way through this.

---

**Nigel Coe** - ***Morgan Stanley - Analyst***

Okay. Julian alluded to the Healthcare margins and I'm wondering what is holding back the margins?

We're seeing a positive mix in Life Sciences. Obviously a lot of work on G&A, so I'm wondering are we seeing here a negative mix as developed markets outperform emerging markets?

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

Well these guys have -- how much FX is in the Healthcare number, Jeff? It's more than $100 million isn't it?

**Jeff Bornstein** - ***General Electric Company - SVP & CFO***

Yes. FX in Healthcare was $40 million of translation in the quarter and that's why the organic number is better than the reported.

I think what we have going on in Healthcare is they've got a real price challenge. Price sequentially is down over a point. They've continued to get base cost productivity.

Where we need them to focus is on product and service margins. So it's not necessarily a mix issue. You're absolutely right, Life Sciences and bioprocess continues to grow but we need to get at is product and service costs within the core AGS business and that's what we're focused on driving.

**Nigel Coe** - ***Morgan Stanley - Analyst***

Okay. And then just a final one, obviously Alstom there's not a lot you can say there but it's in the press there's a deadline for your proposals and you've already made proposals. Are we still working toward a mid-August timeline for a decision or has that been pushed back to later in the quarter?

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

I think the timeline right now is in early to mid-September I believe is where the timeline is. And I think that's probably a pretty good timeframe.

**Nigel Coe** - ***Morgan Stanley - Analyst***

Okay I'll leave it there. Thanks a lot guys.

**Operator**

Andrew Obin, Bank of America Merrill Lynch.

**Andrew Obin** - ***BofA Merrill Lynch - Analyst***

Yes, good morning. Just again on more Oil and Gas. So what you hearing about your customers on Oil and Gas side?

Are you getting pressure request to be the consolidator of the supply chain? Just seems that people broadly want to deal with people with real balance sheets and people who can survive the storm.

**Jeff Immelt** - ***General Electric Company - Chairman & CEO***

Look, Andrew I think there's a certain amount that I think is going to be in play in that regard. I don't think that's a recent phenomenon.

I think that started back several years. And so there remains in the Oil & Gas business a real opportunity to drive better system efficiency between suppliers and the IOCs and the NOCs. And we look at this cycle as a good opportunity for us to drive efficiency.

**Andrew Obin** - ***BofA Merrill Lynch - Analyst***

Okay. And just a follow-up question. Looking at your organic growth rates and order growth rates and compare them to what we're seeing from the macro it just seems you guys are taking market share.

You're a very large Company taking a lot of market share. How long do you think you can do it without triggering a price response from your competition that's seemingly getting clobbered?

---

**Jeff Immelt - *General Electric Company - Chairman & CEO***

Look, in our world technology matters. And so if you look at the Aviation business, if you look at Locomotives, if you look at Gas Turbines, if you look at Healthcare we have a great lineup of technologies that are quite robust. And in the end that's the way you can gain good market position and margins at the same time.

Then on the Service side I think our analytics are starting to play through both from a pricing standpoint and also from a productivity standpoint. So that's another example of technology and what it can drive.

---

**Andrew Obin - *BofA Merrill Lynch - Analyst***

So you look at it as a payoff on your investments over the past many years?

---

**Jeff Immelt - *General Electric Company - Chairman & CEO***

Definitely. I definitely do.

---

**Andrew Obin - *BofA Merrill Lynch - Analyst***

Thank you.

---

**Matt Cribbins - *General Electric Company - VP Corporate Investor Communications***

Great, Jeff, a few quick items before you wrap up. The replay of today's webcast will be available this afternoon on our website and we'll hold our third-quarter 2015 earnings webcast on Friday, October 16. As always we will be available later today for questions. Jeff?

---

**Jeff Immelt - *General Electric Company - Chairman & CEO***

Great, thanks Matt. Again I think you guys see the portfolio taking shape and the hard work we've done but I really want to call out the great execution by the GE team in the quarter.

I think margins, organic growth, cash, GE Capital portfolio repositioning, the GE team really did a great job of execution in the quarter. So Matt, back to you.

---

**Matt Cribbins - *General Electric Company - VP Corporate Investor Communications***

Great, thanks.

---

**Jeff Immelt - *General Electric Company - Chairman & CEO***

Thanks everybody.

---

**Operator**

This concludes your conference call. Thank you for your participation today. You may now disconnect.